

Message Text

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ACTION NEA-09

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E.O. 11652: N/A
TAGS: BMEP, AF
SUBJ: IDC-IECO

REF: A. KABUL 2916; B. STATE 108974

1. PLEASE PASS FOLLOWING MESSAGE IMMEDIATELY TO THOMAS J. HAYES, PRESIDENT IECO, SAN FRANCISCO.

2. HAYES MESSAGE SENT VIA STATE 108974 PRESENTED TO TOUFIQI MAY 10. PARAGRAPH B RAISED SUCH PROBLEMS THAT DISCUSSIONS OF FURTHER POINTS WERE NOT POSSIBLE. FROM THAT DISCUSSION, AND SUBSEQUENT DISCUSSIONS BETWEEN TOUFIQI AND EMBOFFS, CLEAR THAT TOUFIQI CONSIDERS PARA B AS EVIDENCE THAT MK-IECO UNWILLING TO MAKE A COMMITMENT TO IDC AS AN EQUITY PARTICIPANT AND IS STILL SEEKING A POSITION AS HIRED CONSULTANT.

3. TOUFIQI HAS CONSISTENTLY EMPHASIZED THAT SUCCESS OF IDC DEPENDS ON ITS ABILITY TO HOLD AN AUTONOMOUS POSITION FROM GOA. THAT AUTONOMY IN TURN DEPENDS ON FOREIGN EQUITY PARTNER, TOUFIQI TOLD EMBOFF THAT HE STILL CLEARLY PREFERS MK-IECO AS EQUITY PARTNER IN IDC. HE CONSIDERS TWO ELEMENTS NECESSARY: (1) A COMMITMENT BY THE FOREIGN PARTICIPANT TO THE SUCCESS OF TIGE VENTURE (EVIDENCED IN TOUFIQI'S MIND BY EQUITY CONTRIBUTION AND WILLINGNESS TO ACCEPT RETURNS FROM PROFITS, HOWEVER DEFINED); (2) SUFFICIENTLY VALUABLE CONTRIBUTION FROM FOREIGN PARTNER TO ENABLE HIM TO SELL ENTIRE PACKAGE TO CABINET. TOUFIQI HAS MADE IT CLEAR THAT HE IS FLEXIBLE; HE EXPRESSED INTEREST IN POSSIBILITY OF THIRD PARTY PARTICIPANT WITH CASH;
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HE AGREED THAT OTHER-THAN-CASH CONTRIBUTIONS BY IECO ARE

VALUABLE AND WORTH AN EQUITY POSITION; HE HAS AT TIMES STATED THAT NO CASH WOULD BE REQUIRED. HE MUST, HOWEVER, BE CONVINCED THAT IECO-MK HAS FULL COMMITMENT TO IDC AND MUST HAVE A PACKAGE HE CAN PERSUADE CABINET TO ACCEPT AS VALUABLE.

4. TOUFIQI'S FIRST REACTION TO PARA B WAS THAT SOME CAPITAL CONTRIBUTION IS REQUIRED FROM IECO. OTHERWISE, HE MUST THEN COMPARE IECO'S STATUS AND CONDITIONS WITH OFFERS FROM OTHER U.S. AND FOREIGN ENGINEERING/CONSULTING FIRMS TO CREATE A DIFFERENT KIND OF ORGANIZATION. TOUFIQI STATES THAT ALL OF OTHER OFFERS HE HAS RECEIVED HAVE BEEN FOR NON-EQUITY PARTICIPATION. IF SUCH AN OFFER IS ACCEPTED FROM IECO OR ANY OTHER, IDC WOULD LOSE AUTONOMY AND CONCEPT MUST BE SHARPLY SCALED DOWN. TOUFIQI INDICATES THAT HE WILL AWAIT MODIFICATION OR CLARIFICATION OF IECO-MK POSITION BEFORE PROCEEDING WITH CHANGE OF ATTITUDE. DETAILS OF COST REIMBURSEMENT, PERCENTAGE OF EQUITY HOLDING, EXACT FORM OF IECO CONTRIBUTION, ETC., WILL BE THE SUBJECT OF FUTURE NEGOTIATIONS. FIRST HOWEVER, IN ORDER FOR MEANINGFUL NEGOTIATIONS TO CONTINUE, TOUFIQI MUST BE CONVINCED OF IECO-MK'S COMMITMENT TO THE FORMATION OF IDC.

5. ACCORDINGLY RUFF/HARRIS RECOMMEND THAT IECO-MK SHOULD IMMEDIATELY SEND THE FOLLOWING MESSAGE TO TOUFIQI:

QUOTE TO: PRESIDENT TOUFIQI. CONCERNING NEGOTIATIONS FOR IDC JOINT VENTURE BETWEEN IECO-MK AND YOUR MINISTRY, OUR REPRESENTATIVES ADVISE CERTAIN MISUNDERSTANDINGS WHICH REQUIRE FURTHER CLARIFICATION. ACCORDINGLY WE RESPECTFULLY REQUEST THAT YOU CONSIDER AS FOLLOWS:

(A) GOA IS WILLING TO INVEST A CERTAIN SUM OF MONEY AS EQUITY IN IDC.

(B) IECO-MK IS WILLING TO INVEST AND EQUIVALENT VALUE AND TAKE A SUBSTANTIAL EQUITY POSITION. THE IECO-MK CONTRIBUTION MAY TAKE SUCH FORM AS:

- (1) PERSONNEL
- (2) EXPERTISE
- (3) AVAILABLE PLANT AND PROCESSING DESIGNS
- (4) WORLD-WIDE FACILITIES
- (5) TRAINING CAPACITY

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- (6) PROCUREMENT RESOURCES
- (7) EXPORT AND MARKETING CAPABILITIES

THESE ITEMS HAVE A DIRECT DOLLAR VALUE WHICH CAN BE CONVERTED INTO EQUITY CONTRIBUTION TO THE IDC.

(C) IECO-MK WILL UNDERTAKE A JOINT WITH THE GOA ONLY WITH A COMMITMENT TO THAT JOINT VENTURE EQUAL TO THAT OF THE GOA.

(D) IT IS UNDERSTOOD THAT IECO-MK RETURNS ON EQUITY WILL

BE BASED ON PROFITS WHICH WILL BE DETERMINED ACCORING TO
NEGOTIATED FORMULAS FOR EACH TYPE OF IDC UNDERTAKING.

(E) PROVIDING THE ABOVE IS ACCEPTABLE, IECO SENIOR
OFFICIALS WILL SCHEDULE TO ARRIVE KABUL AS STATED IN OUR
MESSAGE OF 10 MAY. UNQUOTE.

6. EMBASSY CONCURS THAT SUCH A MESSAGE IS NECESSARY FOR
DISCUSSIONS TO GO FORWARD. TOUFIQI IS WAITING TO HEAR
FROM IECO. AN IMMEDIATE RESPONSE FROM EICO APPEARS ESSENTIAL.
SUGGEST STATE CHANNELS BE USED.
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